



Budget Tidbits... just the facts

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Budget Brief #2: (2/10/09)

Legislature fiddles while shortfall grows

One-third through session and still no budget savings, with revenues worsening...

I. Revenues continue to underperform forecast

Today's monthly revenue collection report came in \$63 million less than forecast. Revenues have underperformed each month since the November forecast, totaling \$197 million less than anticipated in just three months.

II. Current budget likely in "red" by \$1 billion

Entering the session, the Legislature knew the current biennial budget -- which ends June 30th -- was facing a deficit. *(This is different from the upcoming 2009-11 budget, which faces a multi-billion deficit.)*

The November revenue forecast projected a \$413 million negative general fund ending balance. When additional caseload costs are considered, the current biennial deficit was expected to be \$600 million.

Given declining revenues since that forecast, the deficit is now likely to exceed \$1 billion. That is, \$1 billion worth of adjustments to the current budget will have to be made between now and June 30th -- just to break even.

The constitutional rainy day fund has \$430 million presently. This could -- and likely will -- be used to address the current biennial deficit. But it solves less than half of the problem. And it takes off the table a prime source of how the Governor solved the \$6 billion deficit in 2009-11, as she used the funds in that biennium, rather than the current.

III. Timeline -- An opportunity squandered

Dec. 4th -- Budget tidbit requests Governor convene leaders by end of month to ensure first week supp. budget passage .

Dec. 10th -- Monthly revenues fall \$36 million short (2.3% below target).

Dec. 19th -- After Governor's inaction, letter sent to Speaker and Majority leader.

Jan. 9th -- Monthly revenues fall \$98 million short (9.4% below target).

Jan. 12th -- 1st day of legislative session

Jan 12th & 21st -- Four corner budget meetings.

Feb. 2nd -- House passes semi-supplemental bill, saves less than Governor. (Senate yet to pass.)

Feb. 10th -- 30th day of session
Monthly revenues fall \$63 million short (5.3% below target).

Despite the best intentions, it is now nearly one-third of the way through session and still no budget savings have been sent to the Governor. The only legislative budget proposal would save less than the Governor, even though the budget situation is now worse -- likely a half-billion dollars worse in the current budget and \$1.5 billion worse through 2009-11.

IV. The cost of inaction

While the Legislature waits, non-entitlement caseloads grow, salary increases for union employees continue to be granted, and agencies seeking flexibility to make cuts are hamstrung.

The cost of this inaction is ultimately lost savings opportunities. And this means one of three things -- or a combination thereof -- will result:

- a. Cuts will be deeper than needed if quick action had been pursued
- b. More one-time money and gimmicks will be relied upon to balance budget
- c. Tax increases will be proposed

To put in concrete terms, if the Legislature had acted on day 1 to achieve \$600 million in ongoing policy savings, that would have translated to \$2.4 billion in additional savings for the 2009-11 biennium.

Yet, through its inaction, the ability to achieve \$600 million in ongoing savings for the remainder of the biennium becomes increasingly unlikely, thereby jeopardizing the ability to reduce next biennium's problem by \$2.4 billion.

Instead, one-time money will be used to balance the current deficit, meaning that even deeper cuts will have to be taken in the next biennium or tax increases will be proposed.

Bottom Line

Is this Legislature acting to the detriment of taxpayers and those who rely on core state services by failing to quickly act on a supplemental budget?